

E-Filed 8/25/2011

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION**

LIFETOUCH NATIONAL SCHOOL STUDIOS,
INC.

Plaintiff,

1

KIMBERLY MOSS-WILLIAMS, an individual;
and DOES 1 through 100, inclusive,

Defendants.

Case Number 5:10-cv-05297 JF (HRL)

**ORDER¹ GRANTING MOTION FOR
LEAVE TO FILE SECOND
AMENDED COMPLAINT**

[Re: Docket Nos. 33, 40]

Pursuant to Fed. R. Civ. P. 15(a)(2), Plaintiff Lifetouch National School Studios, Inc.

(“Lifetouch”) seeks leave to file a second amended complaint² (“SAC”) to add Creative Imaging by Robert Garcia, Inc. (“Creative Imaging”) as a defendant.³ The Court concludes that the

¹ This disposition is not designated for publication in the official reports.

² On November 8, 2010, Lifetouch filed its first amended complaint (“FAC”), adding a claim for violation of the Computer Fraud and Abuse Act (“CFAA”), 18 U.S.C. § 1030, *et seq.*

³ Defendant Kimberly Moss-Williams (“Moss”) filed untimely opposition to the instant motion because of an asserted inadvertent error and moves to enlarge time for her response. Mot. to Enlarge Time, filed August 18, 2011. In order to ensure a complete record, the motion will be granted.

1 motion is appropriate for determination without oral argument and will vacate the hearing date of
 2 August 26, 2011. *See* Civ. L.R. 7-1(b). For the reasons set forth below, the motion will be
 3 granted.

4 **I. BACKGROUND**

5 **A. Factual History**

6 Lifetouch provides photography services and related products to schools, students, and
 7 families. FAC ¶ 6. In August 2001, Lifetouch hired Moss as a sales representative. *Id.* at ¶ 7.
 8 As a condition of her employment, Moss agreed in writing to maintain the confidentiality of all
 9 Lifetouch customer lists, pricing arrangements, and other trade secrets. *Id.* at ¶¶ 19-21. In
 10 October 2009, Moss terminated her employment with Lifetouch voluntarily and accepted a
 11 position with Lifetouch's competitor Creative Imaging. *Id.* at ¶¶ 8-9. Prior to leaving
 12 Lifetouch, Moss allegedly copied Lifetouch's proprietary and confidential information from her
 13 company-issued computer to an external data storage device (referred to in the FAC as a "thumb
 14 drive") and used this information to solicit Lifetouch customers once she was employed with
 15 Creative Imaging. *Id.* at ¶¶ 16, 23-24, 37.

16 Lifetouch filed this action in the Alameda Superior Court, but the action subsequently
 17 was removed to this Court on the basis of federal question jurisdiction. Notice of Removal, filed
 18 November 23, 2010. Lifetouch initially chose not to assert claims against Creative Imaging
 19 because counsel for Creative Imaging asserted in a written statement that the company "does not
 20 have, nor has it ever had, the alleged 'thumb drive,'" and that Creative Imaging "is not in the
 21 possession of, has never used, nor has it used in any way accessed [sic] any of the information . . .
 22 . that Kimberly Moss [allegedly] obtained. . ." Carp Decl. ISO Mot. ("Carp Decl."), Ex. D
 23 (November 24, 2009 Letter from counsel for Creative Imaging to Lifetouch).

24 On March 22, 2011, during Moss's deposition, Lifetouch learned for the first time that
 25 Moss had accessed the thumb drive on Creative Imaging computers. *Id.* at Ex. E. In addition,
 26 Moss admitted that during her first week of employment at Creative Imaging she began
 27 soliciting Lifetouch customers to do business with Creative Imaging. *Id.* Lifetouch asserts that
 28

1 these new developments give rise to a claim for misappropriation of trade secrets against
 2 Creative Imaging under the California Uniform Trade Secrets Act (“UTSA” or the “Act”), Cal.
 3 Civ. Code § 3426, *et seq.*

4 **II. STANDARD OF REVIEW**

5 Fed. R. Civ. P. 15(a) provides that “[t]he court should freely give leave when justice so
 6 requires.” Absent any “apparent or declared reason—such as undue delay, bad faith or dilatory
 7 motive on the part of the movant, repeated failure to cure deficiencies by amendments previously
 8 allowed, undue prejudice to the opposing party by virtue of allowance of the amendment, futility
 9 of amendment, etc.—the leave sought should, as the rules require, be freely given.” *Foman v.*
 10 *Davis*, 371 U.S. 178, 182 (1962) (internal quotation marks omitted). Rule 15 thus embraces “the
 11 principle that the purpose of pleading is to facilitate a proper decision on the merits.” *Id.* at
 12 181-82 (quoting *Conley v. Gibson*, 355 U.S. 41, 48 (1957)). In short, the policy permitting
 13 amendment is to be applied with “extreme liberality.” *Eminence Capital, L.L.C. v. Aspeon, Inc.*,
 14 316 F.3d 1048, 1051 (9th Cir. 2003) (citation omitted). Factors which merit departure from the
 15 usual “[l]iberality in granting a plaintiff leave to amend” include bad faith and futility. *Bowles v.*
 16 *Reade*, 198 F.3d 752, 757 (9th Cir. 1999). Undue delay, standing alone, is insufficient to justify
 17 denial of a motion for leave to amend. *Id.* at 758.

18 **III. DISCUSSION**

19 Moss argues that the motion should be denied because amendment would be futile and
 20 would violate the prohibition against meritless claims set forth in Fed. R. Civ. P. 11(b).
 21 According to Moss, Lifetouch has no evidence that Creative Imaging ever acquired any
 22 proprietary information or that it used such information to solicit Lifetouch customers. Moss
 23 also contends that Lifetouch’s claim is not actionable, because misappropriation requires that the
 24 alleged tortfeasor acquire trade secrets intentionally, and at most Creative Imaging received the
 25 Lifetouch trade secrets inadvertently. However, under the UTSA, misappropriation includes not
 26 only the intentional acquisition of a trade secret but also the unpermitted disclosure or use of a
 27 trade secret with knowledge that the secret was obtained by improper means. Cal. Civ. Code §
 28 3426.1(b)(2). Here, Lifetouch already has alleged that Moss improperly acquired proprietary
 information and took that information to Creative Imaging. Whether or not Creative Imaging

1 used the information and knew that it was obtained improperly is a question of fact.

2 Additionally, Moss argues that the confidential information at issue is not protected by
 3 the UTSA. The Act defines “trade secrets” as “a formula, pattern, compilation, program, device,
 4 method, technique, or process, that: (1) [d]erives independent economic value, actual or
 5 potential, from not being generally known to the public or to other persons who can obtain
 6 economic value from its disclosure or use; and (2) [i]s the subject of efforts that are reasonable
 7 under the circumstances to maintain its secrecy.” Relying on *Fortna v. Martin*, 158 Cal.App.2d
 8 634 (1958) and *American Paper & Packaging Prods., Inc. v. Kirgan*, 183 Cal.App.3d 1318
 9 (1986), Moss contends that neither customer lists nor pricing methods qualify as trade secrets
 10 under California law. *See, e.g.*, 158 Cal.App.2d at 640 “A former agent may use, after the
 11 termination of his employment, methods of doing business and processes which are but skillful
 12 variation of general processes known to the particular trade.” (quotation omitted). Courts since
 13 *Fortna* and *American Paper* have held otherwise. *See Morlife, Inc. v. Perry*, 56 Cal.App.4th
 14 1514, 1521-22 (1997) (“[W]here the employer has expended time and effort identifying
 15 customers with particular needs or characteristics, courts will prohibit former employees from
 16 using this information to capture a share of the market. Such lists are to be distinguished from
 17 mere identities and locations of customers where anyone could easily identify the entities as
 18 potential customers.”); *See also Whyte v. Schlage Lock Co.*, 101 Cal.App.4th 1443, 1454-56
 19 (2002) (trade secrets may constitute “cost and pricing information not readily known in the
 20 industry-information such as the cost of materials, labor, overhead, and profit margins . . .”)
 21 (citing *SI Handling Systems, Inc. v. Heisley* 753 F.2d 1244, 1260 (3d Cir. 1985)).

22 Lifetouch points out that prior to the removal of this action, the Superior Court concluded
 23 that the description of the trade secrets contained in the FAC was sufficient to support a claim
 24 for misappropriation. In overruling Moss’s demurrer, the state court explained, “[w]hether, e.g.,
 25 Plaintiff’s customer lists and identity of school decision makers embody information that is
 26 readily ascertainable through public sources . . ., and whether the commission structures and
 27 pricing arrangements are unique to Plaintiff or merely reflect commonly used industry formulas .
 28 . . . cannot be determined from the face of the pleadings.” Carp Supp. Decl. Ex. I.

Accordingly, it appears that Lifetouch is justified in seeking leave to amend, and it would

1 not be futile to add a claim for misappropriation of trade secrets against Creative Imaging. None
2 of the factors that would overcome the liberal policy of Rule 15 are present here. Lifetouch
3 sought to amend at the earliest possible date,⁴ and Moss has not shown that she will be
4 prejudiced by the proposed amendment. The parties have yet to engage in intensive fact
5 discovery, no trial date has been set, and the facts underlying the proposed claim are essentially
6 the same as those set forth in the FAC.

7 **IV. ORDER**

8 Good cause therefor appearing, the motion for leave to file a second amended complaint
9 is GRANTED. The amended pleading shall be filed within twenty (20) days after the date of
10 this order. The hearing date of August 26, 2011 is VACATED.

11 DATED: August 25, 2011



JEREMY FOGEL
United States District Judge

28 ⁴ At the initial case management conference held on March 25, 2011, the parties were
referred to mediation, which proved unsuccessful. One day after the attempted mediation, at a
subsequent case management conference, Lifetouch informed the Court of its intent to seek leave
to amend to add Creative Imaging as a defendant.